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September 16, 2008

AGENDA ITEM 3a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Purchase of Medicare Parts A and B
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. BACKGROUND:**

At the April 22, 2008, Health Benefits Committee (HBC) meeting, staff presented information on CalPERS retirees aged 65 and older enrolled in basic health plans and a cost/benefit analysis to determine if it is cost-effective or cost-prohibitive to move all retirees currently in our basic health plans to Medicare plans.

This agenda item addresses the HBC's question about the cost/benefit analysis if the retiree population is divided into two age groups: 65 to 74 years old and 75 or older.

V. ANALYSIS:

Cost/Benefit Analysis

Consistent with the April agenda item, staff used February 2008 eligibility information combined with 2006 cost data to assess the financial impact of moving retirees in a basic health plan to a Medicare plan.

Calculation of Costs:

For all CalPERS health plans, enrolling retirees in Medicare requires the member to have both Part A and Part B. If we move eligible retirees to Medicare plans, the costs include: the penalties for late enrollment in Part A and Part B, and the payment of the Part A premium.

Members not currently enrolled in Part B will have to start paying the Part B premium, though this is often covered by the 100/90 formula for state retirees.

Calculation of Savings:

For all CalPERS health plans, savings accrue to the basic plan premiums due to the removal of high cost members from the risk pool.

For retirees aged 65 or older who move from a basic plan to a Medicare plan, additional savings result because Medicare premiums are much lower than basic plan premiums.

Results:

	65-74	75+	Total
<u>Savings (in millions)</u>			
Basic plan premium savings	\$15.4	\$30.8	\$46.2
Difference between Basic and Medicare plan premiums	\$6.0	\$7.6	\$13.6
Subtotal	\$21.4	\$38.4	\$59.8
<u>Costs (in millions)</u>			
Part A Premium	-\$13.9	-\$17.9	-\$31.8
Part A Penalty	-\$1.4	-\$1.8	-\$3.2
Part B Penalty	-\$1.7	-\$6.5	-\$8.2
Part B Premium	-\$3.0	-\$3.8	-\$6.8
Subtotal	-\$20.0	-\$30.0	-\$50.0
<u>Net Savings (in millions)</u>	\$1.4	\$8.4	\$9.8

Next Steps

If the committee decides to pursue transferring Medicare-age retirees in basic plans to Medicare plans, the next steps include:

1. Determining which groups to transfer
2. Investigating state and public agency funding mechanisms for Part A and Part B payments to CMS (premiums and penalties)
3. Identifying necessary legislative, regulatory, or policy changes required
4. Considering implementation for the 2010 rate year

VI. STRATEGIC PLAN:

This item supports the CalPERS Strategic Plan, Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

This is an information item only.

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